



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #907

Mass Transit Operating Assistance -- Funding Level (Transportation -- Local Transportation Aid)

[LFB 2001-03 Budget Summary: Pages 654, #3]

CURRENT LAW

Base level funding for urban mass transit assistance is \$53,555,600 SEG for Tier A-1 systems (Milwaukee systems), \$14,297,600 SEG for Tier A-2 (Madison), \$19,804,200 SEG for Tier B systems (Waukesha City and County, Monona, all other urban bus systems and Chippewa Falls and Onalaska shared-ride taxi systems) and \$5,349,100 SEG for Tier C systems (all other remaining systems). For calendar year 2001, the total contract amount for each tier of systems equals the base year funding amounts.

GOVERNOR

Provide \$2,325,100 SEG annually to provide a 2.5% increase in funding, beginning in 2001-02, over the base year level. The funding would be distributed as follows: (a) \$1,338,900 annually for Tier A-1 transit systems; (b) \$357,400 annually for Tier A-2 transit systems; (c) \$495,100 annually for Tier B transit systems; and (d) \$133,700 annually for Tier C transit systems. Set the calendar year distribution amounts for 2001 and thereafter at \$54,894,500 for Tier A-1, \$14,655,000 for Tier A-2, \$20,299,300 for Tier B and \$5,482,800 for Tier C. Replace references to the 1990 decennial census used in determining which systems are in Tier B and Tier C with references to the 2000 decennial census. Repeal statutory references relating to aid payments to Tier A-1 and Tier A-2 systems for previous calendar years.

DISCUSSION POINTS

1. The current system of tiers generally parallels federal aid categories, with tiers for urbanized areas with populations over 200,000 (Tiers A-1 and A-2), urbanized areas with populations between 50,000 and 200,000 (Tier B) and nonurbanized areas (Tier C). Waukesha County and City systems are considered part of the Milwaukee urbanized area and the Monona system is considered part of the Madison urbanized area for federal aid purposes, but they are included in Tier B for state aid purposes. Urbanized areas over 200,000 receive their federal aid directly from the Federal Transit Administration, while the smaller urban systems and the nonurban systems receive their federal funding through DOT.

2. Mass transit aid payments are made from sum certain, transportation fund appropriations. For Tier A-1 and Tier A-2, each system is provided a specified amount of funding for a calendar year. For Tier B and Tier C, DOT makes transit aid distributions so that the sum of state and federal aid equals a uniform percentage of annual operating expenses for each system within a tier.

3. The combined state and federal aid percentage for Tier B and Tier C systems floats to a level that expends the state funds administered by DOT and the level of federal funds that DOT allocates for operating expenses. Local funds, consisting primarily of local property tax and farebox revenues, finance the remaining costs. Because DOT must provide a uniform percentage of state and federal aid to systems within the tier, each system's share of the state funding is affected by the cost changes of the other systems, as well as its own costs.

4. The following table indicates the state funding and combined state and federal funding as a percent of each tier's operating expenses for the past six years.

State and Federal Funding as a Percentage of Expenses by Tier

Year	Tier A-1		Tier A-2	
	State Aid Percentage	Combined State/Federal Percentage	State Aid Percentage	Combined State/Federal Percentage
1996	44.4%	46.8%	42.0%	45.4%
1997	44.6	47.0	42.5	45.9
1998	45.0	45.0	44.7	45.0
1999	46.0	46.0	46.0	46.0
2000	45.7	50.0	40.4	50.4
2001	42.2	51.5	35.7	44.6

Year	Tier B		Tier C	
	State Aid Percentage	Combined State/Federal Percentage	State Aid Percentage	Combined State/Federal Percentage
1996	42.5%	53.6%	39.2%	67.9%
1997	41.4	52.1	37.2	66.2
1998	43.1	60.0	37.1	66.2
1999	41.9	60.0	36.6	66.4
2000	41.2	59.9	37.1	67.4
2001	39.1	60.0	34.2	66.4

5. The bill would provide a 2.5% increase in funding, beginning in 2001-02, over the base year level. The funding would be distributed as follows: (a) \$1,338,900 annually for Tier A-1 transit systems; (b) \$357,400 annually for Tier A-2 transit systems; (c) \$495,100 annually for Tier B transit systems; and (d) \$133,700 annually for Tier C transit systems.

6. The bill would also set the calendar year distribution amounts for 2001 and thereafter at \$54,894,500 for Tier A-1, \$14,655,000 for Tier A-2, \$20,299,300 for Tier B and \$5,482,800 for Tier C. However, the calendar year 2001 transit system contract amounts have already been established. DOA indicates that the Governor's recommendation intended for these distributions to be set in 2002 and thereafter. The bill would have to be modified to reflect this intent.

7. The Governor's recommendations would not provide an additional increase in mass transit aid amounts in the second year of the 2001-03 biennium. Rather, the equivalent of a 2.5% increase in mass transit aid was provided for a supplemental transit aid proposal that would provide additional aid to systems that meet specified cost increase limits. The proposal would create separate, supplemental appropriations for these purposes. The proposal to create supplemental mass transit aid appropriations is addressed in LFB Paper #908. If the Committee does not approve the creation of a supplemental transit aid program, the funds provided for that program under the Governor's recommendation could be used to fund second year increases for the existing mass transit aid program.

8. On March 26, the Department of Transportation indicated a number of changes to the Governor's biennial budget bill that could be made to more accurately reflect the Department's original funding goals for the mass transit operating assistance program. In preparing the Department's budget request, funding for mass transit aid was calculated on a fiscal year basis, rather than a calendar year basis, which results in systems receiving the bulk of the proposed increase in funding in the first calendar year of the biennium with only a small increase in the second calendar year. The Department indicates that local governments prefer a more equal or steady increase in calendar year aid amounts because such increases provide stability and predictability of state aid for local transit systems, which assists local units of government in budgeting and planning.

9. The Department's intent, modified to reflect the Governor's recommendation to create a separate supplemental transit aid program, would provide a 2.5% increase in calendar year 2002 with no additional increase thereafter. Such an increase would set the calendar year distribution amounts for 2002 and thereafter at \$54,894,500 for Tier A-1, \$14,655,000 for Tier A-2, \$20,299,300 for Tier B and \$5,482,800 for Tier C. Compared to the bill, these calendar year amounts would allow a decrease of \$1,743,800 in 2001-02.

10. Based on a forecast of the economy by Standard and Poor's DRI, general inflation is projected to be 2.1% in 2002 and 1.7% in 2003. The amount of above base funding necessary to provide inflationary increases in the calendar year distributions for each tier of systems is estimated to be \$488,400 in 2001-02 and \$2,356,700 in 2002-03. Compared to the bill, this would represent a decrease of \$1,836,700 in 2001-02 and an increase of \$31,600 in 2002-03.

11. Fuel is a significant cost component associated with providing transit services. The recent increases in fuel costs have outpaced general inflation and have resulted in substantial increases in the cost for systems to provide the same level of service. Providing a percentage increase in funding that is greater than forecasted inflation would assist systems in funding these higher costs and would provide state and federal funding at a level that would more likely fund a percentage of system costs similar to the percentages funded in recent years. The following table compares the calendar year 1999 and calendar year 2000 total fuel costs for specific systems reviewed by DOT. The reported fuel increases added from 0.9% to 2.2% to the percentage growth in the systems' costs from 1999 to 2000.

Comparison of Total Fuel Costs for Specific Transit Systems

<u>Bus System</u>	<u>Calendar Year 1999 Fuel Costs</u>	<u>Calendar Year 2000 Fuel Costs</u>	<u>Increase</u>	<u>Percentage</u>
Milwaukee	\$2,638,509	\$4,157,082	\$1,518,573	57.6%
Green Bay	190,348	265,000	74,652	39.2
Appleton	108,905	170,433	61,528	56.5
Eau Claire	81,975	136,109	54,134	66.0
Manitowoc	36,200	50,500	14,300	39.5
Fond du Lac	<u>28,265</u>	<u>41,865</u>	<u>13,600</u>	<u>48.1</u>
Total	\$3,084,202	\$4,820,989	\$1,736,787	56.3%

12. Transit system officials also indicate that a system's eligible costs can rise faster than inflation because transit service costs that were funded with one-time state and federal grants in prior years must now be funded as eligible costs under the transit aid program. For example, in recent years federal funds have been made available on a project basis to assist transit systems in increasing services that provide low-income individuals in need of work with access to places of employment. Projects eligible for funding include expanded service hours and routes to accommodate shift and weekend workers and workers with non-traditional working hours. Although these increased costs are initially funded with federal funds, providing these services increases system costs aided under the state's transit aid program when the federal project funding is no longer available. In addition, because these job access services can involve off peak hour service or the addition of service routes, the services tend to be more expensive on a per rider basis.

13. For example, in 2000-01, Waukesha Metro Transit received a \$234,700 Wisconsin employment transportation assistance program (WETAP) project grant that is funded primarily with federal funds to provide additional bus service that connects a transfer station for express bus service from downtown Milwaukee to a previously unserved industrial and commercial retail center on Waukesha's east side. In the seven months since the additional service was added, over 42,000 transit riders have used the service. However, Waukesha Metro is only eligible for three years of project grants and the system must reapply for the funds each year. If the WETAP funds are no longer available and the system continues to provide the service, the \$234,700 in grant-funded costs associated with the expanded service would be eligible costs under the state transit aid program. If this occurs, the Waukesha Metro system would have a 6.2% increase in its eligible costs under the transit aid program compared to its 2001 contract costs, which is well above the general rate of inflation.

14. Transit officials also contend that an above-inflation increase is needed to allow systems to meet the rising costs of providing "para-transit" services for paralyzed or otherwise disabled citizens. For many transit systems in the state, the level of these "para-transit" services and costs are growing at a significantly higher rate than basic ridership services and costs. In public testimony before the Joint Committee on Finance, the Wisconsin Urban and Rural Transit Association and transit managers indicated that state systems' para-transit costs have increased by 500% over the last five years. One transit system (Green Bay) indicates that para-transit service now makes up 20% of the system's annual operating costs.

15. State transit aid funds are provided on a calendar year basis, with quarterly aid payments made in April, July, October and December. Therefore, only one quarter of any calendar year 2003 increase would be paid in 2002-03. The remaining portion of the calendar year 2003 increase would be funded in the next biennium. The following table indicates the annual funding commitment in the next biennium under various increases in the calendar year distributions for all tiers.

**Future Year State Transit Aid Commitments
Under Various Percentage Increases**

<u>Calendar Year Distribution Increase 2002/2003</u>	<u>Future Funding Commitment</u>
1%/1%	\$704,500
2.1%/1.7% (Inflation)	1,210,700
2%/2%	1,423,000
2.5%/0% (DOT)	0
3%/3%	2,155,400
4%/4%	2,901,800
5%/5%	3,662,100
6%/6%	4,436,400

16. Last biennium, mass transit operating assistance was increased by 7.5% in 2000 and 0% in 2001. Due in part to increases in federal mass transit funding, overall transit funding increases are comparable to the increases in other transportation-related programs. State funding increases have equaled 32.1% since 1996-97, while federal funding for mass transit operating assistance has increased by 85.1% during the same period. The following table compares the percentage increases in state and federal funding for various transportation programs from 1996-97 through 2002-03.

**Percentage Increase in State and Federal Funding
for Various Transportation Programs
(Fiscal Years 1997-2003)**

<u>Program</u>	<u>Governor</u>
Major Highway Development*	46.1%
Mass Transit Aid	45.7
State Highway Rehabilitation**	44.1
Local Road Programs***	29.8
State Highway Maintenance	23.3

* Adjusted to reflect the amount that the Governor intended to provide in 2002-03, which is less than the amount actually in the bill by \$4,529,100.

** Does not include funding provided in a separate appropriation for the reconstruction of the Marquette Interchange. If this funding were included, the increase for the rehabilitation program would be 68.7%.

*** Includes general transportation and connecting highway aid, local roads improvement program and local bridge and highway improvement assistance.

17. The Governor's recommendation includes a provision to replace references to the 1990 decennial census with references to the 2000 decennial census for the purpose of determining 2001 aid amounts. The decennial census is used to determine which systems will be placed in Tiers B and C. DOT indicates that because information on the 2000 decennial census was not available at the time aid contracts for 2001 were signed, the 1990 census should be used for calendar year 2001 aid payments with the 2000 census being used for calendar year 2002 and thereafter.

ALTERNATIVES TO BILL

A. Funding Level

1. Approve the Governor's recommendation, as modified to adjust the calendar year distribution amount for calendar year 2002 rather than 2001, to provide \$2,325,100 SEG annually for a 2.5% increase in funding, beginning in 2001-02, over the base year level. The funding would be provided as follows: (a) \$1,338,900 annually for Tier A-1 transit systems; (b) \$357,400 annually for Tier A-2 transit systems; (c) \$495,100 annually for Tier B transit systems; and (d) \$133,700 annually for Tier C transit systems. Set the calendar year distribution amounts for 2002 and thereafter at \$54,894,500 for Tier A-1, \$14,655,000 for Tier A-2, \$20,299,300 for Tier B and \$5,482,800 for Tier C.

2. Modify the Governor's recommendation by deleting \$1,743,800 SEG in 2001-02 as follows to provide a 2.5% increase in transit funding for calendar year 2002 and thereafter: (a) -\$1,004,200 for Tier A-1 transit systems; (b) -\$268,000 for Tier A-2 transit systems; (c) -\$371,300 for Tier B transit systems; and (d) -\$100,300 for Tier C transit systems. Delete the proposed changes to the calendar year 2001 distribution amounts and set the calendar year distribution amounts for 2002 and thereafter at \$54,894,500 for Tier A-1, \$14,655,000 for Tier A-2, \$20,299,300 for Tier B and \$5,482,800 for Tier C.

Alternative A2	SEG
2001-03 FUNDING (Change to Bill)	- \$1,743,800

3. Modify the Governor's recommendation by deleting \$1,836,700 SEG in 2001-02 and providing \$31,600 SEG in 2002-03 as follows to provide inflationary increases in the calendar year distributions of 2.1% in 2002 and 1.7% in 2003 to each tier of systems: (a) -\$1,057,700 in 2001-02 and \$18,200 for Tier A-1 systems; (b) -\$282,300 in 2001-02 and \$4,900 in 2002-03 for Tier A-2 systems; (c) -\$391,100 in 2001-02 and \$6,700 in 2002-03 for Tier B systems; and (d) -\$105,600 in 2001-02 and \$1,800 in 2002-03 for Tier C systems. Set the calendar year distribution amounts as follows: (a) \$54,680,300 for 2002 and \$55,609,900 for 2003, and thereafter, for Tier A-1; (b) \$14,597,800 for 2002 and \$14,846,000 for 2003, and thereafter, for Tier A-2; (c) \$20,220,100 for 2002 and \$20,563,800 for 2003, and thereafter, for Tier B; and (d) \$5,461,400 for 2002 and \$5,554,200 for 2003, and thereafter, for Tier C.

Alternative A3**SEG****2001-03 FUNDING** (Change to Base)

- \$1,805,100

4. Modify the Governor's recommendation by providing annual mass transit aid increases (SEG) for 2002 and 2003 at one of the following percentages. Set the distributions for each tier and change the mass transit aid appropriations as shown below:

	Calendar Year		Change to Bill	
	Distribution Amounts		2001-02	2002-03
	2002	2003		
1. One Percent				
Tier A-1	\$54,091,200	\$54,632,100	-\$1,205,000	-\$668,100
Tier A-2	14,440,600	14,585,000	-321,600	-178,300
Tier B	20,002,200	20,202,200	-445,600	-247,100
Tier C	<u>5,402,600</u>	<u>5,456,600</u>	<u>-120,300</u>	<u>-66,700</u>
	\$93,936,600	\$94,875,900	-\$2,092,500	-\$1,160,200
2. Two Percent				
Tier A-1	\$54,626,700	\$55,719,200	-\$1,071,100	\$5,300
Tier A-2	14,583,600	14,875,300	-285,900	1,500
Tier B	20,200,300	20,604,300	-396,100	2,000
Tier C	<u>5,456,100</u>	<u>5,565,200</u>	<u>-106,900</u>	<u>600</u>
	\$94,866,700	\$96,674,000	-\$1,860,000	\$9,400
3. Three Percent				
Tier A-1	\$55,162,300	\$56,817,200	-\$937,200	\$681,500
Tier A-2	14,726,500	15,168,300	-250,200	182,000
Tier B	20,398,300	21,010,200	-346,600	252,000
Tier C	<u>5,509,600</u>	<u>5,674,900</u>	<u>-93,600</u>	<u>68,100</u>
	\$95,796,700	\$98,670,600	-\$1,627,600	\$1,183,600
4. Four Percent				
Tier A-1	\$55,697,800	\$57,925,700	-\$803,300	\$1,360,300
Tier A-2	14,869,500	15,464,300	-214,400	363,200
Tier B	20,596,400	21,420,300	-297,000	503,100
Tier C	<u>5,563,100</u>	<u>5,785,600</u>	<u>-80,200</u>	<u>135,900</u>
	\$96,726,800	\$100,595,900	-\$1,394,900	\$2,362,500
5. Five Percent				
Tier A-1	\$56,233,400	\$59,045,100	-\$669,400	\$2,041,800
Tier A-2	15,012,500	15,763,100	-178,700	545,200
Tier B	20,794,400	21,834,100	-247,500	755,000
Tier C	<u>5,616,600</u>	<u>5,897,400</u>	<u>-66,800</u>	<u>204,000</u>
	\$97,656,900	\$102,539,700	-\$1,162,400	\$3,546,000
6. Six Percent				
Tier A-1	\$56,768,900	\$60,175,000	-\$535,600	\$2,725,900
Tier A-2	15,155,500	16,064,800	-142,900	727,800
Tier B	20,992,500	22,252,100	-198,000	1,008,100
Tier C	<u>5,670,000</u>	<u>6,010,200</u>	<u>-53,500</u>	<u>272,300</u>
	\$98,586,900	\$104,502,100	-\$930,000	\$4,734,100

5. Maintain current law. Base level funding would be provided in the 2001-03 biennium.

Alternative A5	SEG
2001-03 FUNDING (Change to Base)	- \$4,650,200

B. Statutory Changes

1. Approve the Governor's recommendation to replace references to the 1990 decennial census used in determining which systems are in Tier B and Tier C with references to the 2000 decennial census. Repeal statutory references relating to aid payments to Tier A-1 and Tier A-2 systems for previous calendar years.

2. Modify the Governor's recommendations to specify that for the purposes of determining which systems are in Tier B and Tier C, the 1990 census shall be used for calendar year 2001 aid payments, with the 2000 census used for calendar year 2002 payments and thereafter.

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